



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 18, 2007

H.R. 3866 **Small Business Programs Act of 2007**

As passed by the House of Representatives on November 6, 2007

SUMMARY

H.R. 3866 would reauthorize the business loan programs of the Small Business Administration (SBA) through 2009. The bill also would reauthorize other SBA programs that provide technical and operational assistance to small businesses through 2009.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 3866 would cost \$307 million in 2008 and \$1.2 billion over the 2008-2012 period. About \$645 million of this amount is the estimated subsidy and administrative cost of continuing SBA's credit programs, and about \$597 million would be for SBA's noncredit programs. CBO estimates that enacting the bill would not affect direct spending or revenues.

H.R. 3866 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3866 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

ESTIMATED BUDGETARY IMPACT OF H.R. 3866

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Guaranteed and Direct Business Loan Programs					
Subsidy Costs					
Estimated Authorization Level	13	14	0	0	0
Estimated Outlays	7	13	7	0	0
Administrative Costs					
Estimated Authorization Level	127	131	135	139	143
Estimated Outlays	90	121	130	135	138
Disaster Mitigation Pilot Program					
Subsidy Costs					
Estimated Authorization Level	2	2	0	0	0
Estimated Outlays	1	2	1	0	0
Total Loan Programs					
Estimated Authorization Level	142	147	135	139	143
Estimated Outlays	98	136	138	135	138
Noncredit Programs and Costs					
Estimated Authorization Level	295	312	0	0	0
Estimated Outlays	209	289	81	17	1
Total Spending Under H.R. 3866					
Estimated Authorization Level	437	459	135	139	143
Estimated Outlays	307	425	219	152	139

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Authorized Loan Level					
Guaranteed and Direct Business Loans	33,410	33,920	0	0	0
Disaster Loans	15	15	0	0	0

Note: SBA has not yet received a full-year appropriation for fiscal year 2008. Appropriations to the agency for 2007 totaled nearly \$357 million.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted early in calendar year 2008 and that the necessary amounts will be appropriated each year. We assume that spending will follow historical patterns for the various SBA loan and business assistance programs.

The budgetary accounting for SBA's direct loan and loan guarantee programs is governed by the Federal Credit Reform Act (FCRA) of 1990, which requires appropriation of subsidy and administrative costs associated with loan guarantees and loan operations. The subsidy cost is the estimated long-term cost to the government of a loan or loan guarantee, calculated on a net-present-value basis, excluding administrative costs. Administrative costs, recorded on a cash basis, include activities related to making, servicing, and liquidating loans as well as overseeing the performance of the lenders.

The effect of the changes H.R. 3866 would make to SBA's business loan programs is measured in terms of projected subsidy costs. The act does not specify an authorization level for either the subsidy or administrative costs, if any, that could be incurred as a result of implementing the amendments in the bill. CBO has estimated those amounts based on information from SBA regarding the historical demand for and costs of the agency's business and disaster loan programs. We assume that administrative activities related to those loans would continue beyond the 2008-2009 period.

H.R. 3866 would authorize SBA to continue its direct business loan and business loan guarantee programs as well as various technical assistance and support programs for fiscal years 2008 and 2009. Based on information from SBA and historical spending patterns for the agency's programs, CBO estimates that implementing those provisions would cost \$1.2 billion over the 2008-2012 period, assuming appropriation of the necessary amounts.

Guaranteed and Direct Business Loan Programs

The following loan programs would be authorized by H.R. 3866:

- The 7(a) program, which provides limited guarantees on loans made by certain lending institutions to small businesses;
- The certified development company (CDC) program (also known as section 504 loans), which provides guarantees on debentures issued by CDCs to provide funding to small businesses for major fixed assets such as land, structures, machinery, and equipment;
- The microloan program, which provides loans to nonprofit lenders who then offer loans to small businesses just starting up whose capital needs are too small to qualify for the 7(a) program; and

- The Small Business Investment Company (SBIC) debenture program, which provides funding to privately owned companies that provide venture capital to small businesses.

Subsidy Costs of General Business Loans. The act would authorize SBA to guarantee loans and make direct loans to small businesses, with a total loan value up to about \$29 billion in 2008 and about \$30 billion in 2009. By comparison, the authorized loan level for 2007 was about \$28 billion, and the agency funded direct and guaranteed loans worth about \$21 billion in that year.

The estimated subsidy rates for the business loan programs offered by SBA range from zero for the 7(a) and section 504 programs to about 10 percent for the microloan program. Using historical demand and default rates for those loan programs, CBO estimates that the subsidy costs for the authorized levels of guaranteed and direct business loans would be \$27 million over the 2008-2012 period.

Small Business Investment Company Program. The act also would authorize SBA to purchase \$4.0 billion in debentures in each of fiscal years 2008 and 2009. Under the debenture program, SBA would guarantee debentures (long-term debt issued by SBICs to provide venture capital funding to small businesses).

The debenture program is treated as a credit program under FCRA. The estimated subsidy rate for the program is zero because SBA charges fees sufficient to cover the cost of guaranteeing the debentures. CBO estimates, therefore, that guarantees under the debenture program would have no cost.

Administrative costs. As specified in FCRA, subsidy rates do not reflect the administrative costs to service loan programs. CBO estimates that the administrative costs for the business loans authorized in the act would be \$614 million over the 2008-2012 period.

Disaster Mitigation Pilot Program. H.R. 3866 would authorize SBA to make \$15 million in predisaster mitigation loans in each of fiscal years 2008 and 2009. Such funds would be used to make direct loans to small businesses for disaster mitigation projects that would not otherwise be funded by the private market. According to the Administration, those loans are estimated to carry an average subsidy rate of about 16 percent. As such, CBO estimates that implementing this provision would cost \$4 million over the 2008-2012 period, subject to appropriation of the necessary funds.

Noncredit Programs. H.R. 3866 would authorize appropriations for several SBA programs that provide technical support and training to qualified small businesses. Based on information from SBA, CBO estimates that implementing those noncredit provisions of H.R. 3866 would cost \$597 million over the 2008-2012 period, assuming appropriation of the specified or necessary amounts.

CBO estimates that those costs over the 2008-2012 period would be for activities under the Service Corps of Retired Executives program, the small business development company program, small business programs for women, the BusinessLINC program (which promotes relationships between large and small businesses), and the HUBZone program (which provides contracting preferences to small businesses located in certain areas). Technical assistance grants under the microloan program also are included in this estimate.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3866 contains no intergovernmental or private-sector mandates as defined in UMRA. By authorizing grants to SBDCs and consortia of public entities, the bill would benefit state, local, and tribal governments. Any costs that those entities incur would result from complying with conditions of federal assistance.

PREVIOUS CBO ESTIMATES

On November 9, 2007, CBO transmitted a cost estimate for H.R. 3866, the Small Business Programs Act of 2007, as ordered reported by the House Committee on Small Business on October 18, 2007. The version of the legislation approved by the committee also would have authorized certain SBA activities that are not covered by the House-passed version—guarantees under the disaster loan and participating securities programs as well as salaries and expenses for SBA’s employees other than those involved in the administration of direction loans and loan guarantees. CBO estimated that implementing that version of the legislation would cost \$3.0 billion in 2008 and \$12.5 billion over the 2008-2012 period.

ESTIMATE PREPARED BY:

Federal Costs: Susan Willie

Impact on State, Local, and Tribal Governments: Elizabeth Cove

Impact on the Private Sector: Jacob Kuipers

ESTIMATE APPROVED BY:

Theresa Gullo

Deputy Assistant Director for Budget Analysis